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"Southeast Asia", The Asia Society

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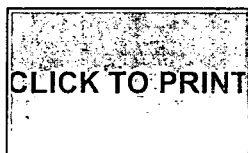
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Southeast Asia

The Asia Society
Washington, DC

February 10th, 1998

Thank you very much. I am grateful to the Asia Society for sponsoring this breakfast; and to all of you for coming on this February morning. Let me wish the Society, and each of you, a happy Year of the Tiger.

Also, special thanks to Judy Sloan for inviting me to speak with you, and for her work on the Society's Congressional Forum series as a whole. It is a remarkable opportunity for us Congress not only to speak but to listen, and I thank you for it.

VISIT TO SOUTHEAST ASIA

Last December I spent two weeks in Southeast Asia, visiting the Philippines, Brunei, Thailand and Indonesia, to discuss the region's finances, environmental protection and security.

I had the honor of an audience with His Majesty the King of Thailand. Spent an hour with the senior class of IKIP Lab High School in East Jakarta, where a young woman told me how happy she was to see America appoint its first female Secretary of State. Learned about the forty varieties of durian fruit from the Permanent Secretary of Agriculture in Brunei. Saw the new Federal Express hub, which has replaced the U.S. Navy as the largest employer in Subic Bay. And met quite a lot of officials, ordinary people and resident Americans.

None of this qualifies me as an instant expert on Southeast Asia. But it has made me think about the reason failing banks, unemployed workers, and recessions twelve thousand miles away matter to us here and back home in Montana.

THE PAST: AN ERA OF WAR

And it begins with our goals as a country. We want prosperity. We want a decent, healthy world for our children. But all of it begins with keeping the peace. That is the most important goal. And for ideas on how to keep the peace, we should begin by looking back to the times when we did not have peace.

In the past century, our country fought seven foreign wars. Five -- the Spanish-American War, the so-called "Philippine Insurrection" which followed it, World War II, Korea and Vietnam --

took place, wholly or in part, in countries affected by the Asian financial crisis.

Their circumstances differ. In some cases we still argue over their causes and whether we acted rightly. That issue can wait for another day. What I would like to point out is that each of these wars had three things in common.

First, our relationship with a big country went bad -- Spain in the colonial era; Japan before World War II; China and Russia in the Cold War. Second, Asia's small or medium-sized countries were poor; had unstable governments, were often at odds with one another; and were consequently vulnerable to attacks from larger and wealthier countries around them. And third, the size, natural wealth and strategic location of Southeast Asia and Korea makes their fate of inevitable concern to Americans.

So throughout this century, right or wrong, when Asians went to war the US was often dragged in. And these wars were frequent. As recently as 1979, when I joined the Senate, Vietnam invaded Cambodia. China attacked Vietnam. Laos and Thailand shelled one another along the Mekong River. The Philippines were under martial law and had not just one but two guerrilla armies. And our own soldiers were only five years out of Indochina.

THE PRESENT: AN ERA OF PEACE

The past twenty years, by contrast, have been an era of peace in Asia. Some old conflicts have been solved, and no new ones have begun.

Why is that? Good American policies deserve some credit. Our alliance with Japan, together with our commitment to seek common ground with China, has prevented collisions between big powers. And we have remained committed to a stabilizing military role in the Pacific.

But just as important, every year since 1979, Southeast Asia has become wealthier, stronger, stabler and more cohesive.

THE SOUTHEAST ASIAN ACHIEVEMENT

When they formed ASEAN, the Association of Southeast Asians, Indonesia, Malaysia, Thailand, the Philippines and Singapore committed themselves to a consensus approach to regional politics; solidarity in relations with outside powers; and open economies. And the results have been very good.

Conflicts within Southeast Asia are ebbing away. ASEAN will soon include all ten Southeast Asian countries. In 1995 it healed the region's most serious division by including Vietnam and Laos. With continued cooperation on Americans still listed Missing in Action during the Vietnam War, we ourselves should act quickly to create a fully normal relationship, including MFN status, with these countries.

This unity allows the region to act in concert and resist outside pressures. Thus, once a battlefield for big powers, Southeast Asia now helps to create stability throughout the Pacific through the ASEAN Regional Forum.

And good economic policies, combined with attention to education, made the lives of Southeast Asia's people better. Today ASEAN countries are taking some criticism for weak regulation, "crony capitalism" and the like. No doubt some of it is justified. And it is certain that, outside Singapore and Brunei, these countries gave far too little attention to the environment.

But that should not obscure the achievement. Since I came to Congress, income in the region has gone up almost ten-fold. Infant mortality in Indonesia has dropped by more than half, from 118 to 51 per thousand; in Thailand from 63 to 35 per thousand. Life expectancy at birth in the Philippines is up by ten years, from 56 to 66; in Indonesia by sixteen years. Literacy is now nearly universal throughout Southeast Asia.

And with the sad exceptions of Cambodia and Burma, as well as the unique case of East Timor, human rights records in Southeast Asia are vastly improved. The call of the Filipino patriot Jose Rizal for:

"more respect for human dignity, greater security for the individual, less power for the security services, and fewer privileges for organizations which abuse the people,"

is now closer to an objective description than an idealistic hope.

All this makes a very good record -- good for Southeast Asians, and for us as well. Once a destination for American foreign aid and military advisors, today it is a destination for exports. Last year the ASEAN countries bought more than \$50 billion worth of goods and services from us -- as much as China, Hong Kong, Taiwan and Macao combined. In this decade, Montana has exported more to the Philippines than to any country in Europe.

THE CRISIS

Thus, our interest is clear. When Southeast Asia is poor, divided and unstable, wars will be more likely. When it is wealthy, united and strong, we are more likely to have peace. And that brings us to the present, when Southeast Asians face their worst crisis in the past two decades.

Its causes are fairly well known. Southeast Asian companies -- especially in Thailand, Indonesia and Malaysia -- got carried away with their success. And governments, rather than impartially regulating these businesses, tended to get involved as well. (This was not universal. Singapore, the Philippines and Brunei managed things better and have suffered less. Indochina and Burma are less developed and less affected.) As Thailand's Finance Minister told me in Bangkok, the environment before the crisis was one of:

"lax supervision or no supervision by the government, and the belief that Thailand is so rich that we needed only throw in some money to solve any problem."

So these companies put up too many office buildings and took out too many loans. Their countries have suffered in the financial markets -- Thailand's currency, the baht, declined from 25.5 to the dollar last July to 54 in January; Malaysia is down a bit less; and the Indonesia rupiah has lost almost 80% of its value.

These statistics, in daily life, mean intense suffering. The foreign debt of every Thai company has effectively doubled. That of Indonesian firms has quadrupled. Hundreds or thousands of them cannot pay this debt. They will go broke and their workers will lose their jobs. Thailand will lose at least 500,000 jobs and maybe up to one and a half million, from a total of 20 million people working off the farm. Indonesia will suffer even worse.

EFFECTS ON AMERICA

What are the effects here in America?

In economics they are simple and predictable. Southeast Asians, and Koreans as well, have less money than they did last July. So they will buy less from us this year. And we will lose exports, growth, and jobs. Economists predict that our economy will lose at least a half point of growth, meaning \$40 billion off the top. Bringing it home, I got a letter last week saying a Montana semiconductor company has just laid off 85 people because of this crisis. And if the crisis spreads beyond Southeast Asia and Korea to China, Taiwan, Hong Kong and Japan, nearly a third of our exports to the world would be in danger.

The political effects are less predictable, but could be even worse. A long period of recession, high unemployment, and inflation can destabilize governments; and where political systems are more rigid and authoritarian, they can destabilize countries. Ultimately, they can threaten the peace which is so important to us. And that explains a second letter I received last week -- from an Indonesian immigrant to Montana. He was looking for help with immigration forms, because he fears for the safety of his Chinese in-laws at home in the event of riots and political upheaval.

LONG-TERM RESPONSE: FINANCIAL REFORM

So a prolonged crisis will hurt us economically, and threaten to move us backward to an era in which war and revolution are more likely. Even setting aside our sympathy for suffering people, this prospect is bad for us and we should try to prevent it.

So what do we do about it? In the long run, stop saying "I told you so," and giving lectures on crony capitalism. Instead, we should try to figure out how to prevent future crisis. Because actually, while the causes of the crisis may be clear in retrospect, we didn't tell them so. Nobody

predicted this crisis, and we should not pretend that we did.

That is most likely because we do not understand today's financial world very well. Between 1986 and 1995, world GDP grew from \$26 trillion to \$33 trillion, or 21%. During the same period, world capital flows grew from about \$188 billion to \$1.2 trillion per day -- about 630%. So the financial world has fundamentally changed in a way the world productive economy has not.

As Secretary Rubin noted last month, international financial institutions have not evolved along with the markets. Even more important, as our failure to anticipate two large crises in three years -- Mexico and Asia -- neither has our understanding of these markets. Until we catch up, the best we can do is listen to John Kenneth Galbraith, introducing the new edition of his book 1929: The Great Crash:

"Always when markets are in trouble, the phrases are the same: 'The economic situation is fundamentally sound,' or simply 'The fundamentals are good.' All who hear these words should know that something is wrong."

SHORT-TERM RESPONSE: FIXING THE CRISIS

But finding out how to predict future crises is a long-term task and a difficult one. And in the short term, we need to end this particular crisis.

To do that, Southeast Asians must first of all help themselves. And in most cases they are. Ordinary people are helping themselves. I was in Bangkok when the "Thai Helping Thai" campaign kicked off with donations from a leading Buddhist monk. I also noticed a proposal by a Bangkok Nation columnist to advertise Thai politicians as tourist attractions to raise money, calling them "the most colorful crew of political wild men east of Ross Perot." He must have missed the "revolutionary" Congress and the government shutdowns.

And Southeast Asian governments, particularly the Philippines and Thailand, have acted with a lot of courage and to good effect. During my visits, I heard no one attempt to shift the blame onto foreigners and speculators. Instead I heard honest assessments of the situation and clear plans for the future. At home, I saw actions to close failing banks and finance companies, open capital markets and all the rest. And internationally, these governments show some strength by remaining committed to APEC and the ASEAN Free Trade Area.

In time this could solve the crisis by itself. But some help from abroad can restore confidence, prevent defaults and solve it more quickly. That will mean less human suffering and less danger of political upheavals in Southeast Asia. Fewer lost exports and jobs for us -- maybe some of those 85 workers in Kalispell will even get their jobs back. So if we can help end the crisis by making some loans -- within our means, and as long as other interested countries do their part -- we should.

RESCUE PLANS ARE WORKING

And though we got started late, we are now on the right track. The International Monetary Fund plans are controversial and might need some changes. I think they are wrong, for example, to ask for sharp budget cuts when unemployment is going up and revenues are going down. But on the whole, the plans are right.

Why? One, because that is what Southeast Asians told me, and they know their countries best. No one I met in Thailand, Brunei, the Philippines or Indonesia said these plans were fundamentally wrong, although some hoped to see adjustments. As Prime Minister Chuan said to me, "no country wants this kind of help; but there is no choice."

Even better evidence is that the plans are working. Southeast Asian currencies stopped falling about a month ago. Stock markets are up -- in the Thai case, from 330 in early January to over 500 now. The Thai, Korean, Filipino and Malaysian currencies have begun to recover from their lows last month. In most cases the task is no longer stopping panics but rebuilding.

INDONESIA

Indonesia is different. It has been the slowest to implement reforms, and its economy is the only one still suffering from capital flight and falling currency. And stopping the crisis in Indonesia is more complicated than it is anywhere else. Because while the economic issues are not much different from those in Thailand, the crisis in Indonesia has a political dimension which does not exist in its neighbors.

Indonesian politics have little space for loyal opposition. Policy revolves to an extraordinary degree around an elderly and sometimes ailing President. And the weakness of this approach to government is now clear. In less democratic countries, the line between street demonstrations and revolutions is thin. We have already seen riots and panic buying in Java. And that says to me that if currency plunges continue or the President's health worsens, Indonesia could descend into chaos.

Whatever you think about the Indonesian government, that would be disastrous. With a population of 200 million, Indonesia is Southeast Asia's largest country. Its moderate and constructive foreign policy is immensely valuable, from Cambodia to APEC to North Korea's nuclear program. And we need to work with Indonesia in foreign policy, military training, environmental protection, human rights and trade. If Indonesia's slide continues, suffering would be enormous inside the country. The disruption to every neighboring country great. And the future consequences for peace in Southeast Asia more serious still.

So we need to ensure quick action on economic reforms, as I believe the Treasury Department has done. And we should also speak up, patiently and politely but seriously, for a more

flexible political system that can weather bad times in safety.

ROLE OF US, CHINA AND JAPAN

Finally, we have our own responsibilities, and so do other countries -- China and Japan in particular.

We in America should stand by the IMF reform plans, and Congress should approve the full request for new IMF funding. The plans can certainly be adjusted. And it is entirely appropriate for Congress to attach conditions calling for greater openness in the IMF, and for a more vigorous approach by the Administration for market access in Asia. It is not appropriate to link action to totally unrelated issues like abortion, as some did last year. And for the US to back away completely would cause a new panic and make things far worse than they already are.

China must stand by its commitment not to devalue its own currency. Because Southeast Asian currencies are so low, Southeast Asian goods are much cheaper. So China's competing exports will be hit hard this year, and China's government will face great pressure to devalue its own currency -- likely setting off a new round of devaluations. Thus far China, and the Hong Kong government as well, have refused to devalue. They deserve immense credit for that and I hope they keep it up.

And Japan must raise its own economic growth rates and open up to imports. Japan has contributed to the rescue packages during their own recession, providing \$19 billion to Thailand, Indonesia and South Korea. We should not ignore that. But Japan has greater responsibilities than this. It could do a great deal more -- for Japanese consumers and citizens as well as Southeast Asia and Korea -- by opening its market. That of course is a large topic in itself, but it is essential to ending the crisis.

CONCLUSION

These tasks are difficult and complex. But not impossibly so. We already see good signs. And if we, China, Japan, Australia and Europe do our part, and Southeast Asians do theirs, recovery may well begin before the Year of the Tiger is out.

That means most for Southeast Asians, of course; but it also means more prosperity, and stronger guarantees of peace, for us. And although Southeast Asia's people and governments face their most complex and demanding challenge in two decades, I am an optimist.

Because Southeast Asia has enormous natural wealth.

It has good schools.

It has citizens who save money, work hard and sacrifice.

It has political leaders, from Presidents Aquino and Ramos in the Philippines to King Rama IX in Thailand and Aung San Suu Kyi in Burma, who are in their own ways among the most accomplished and original leaders alive.

And it has young people, like those I met at the high school in Jakarta, who are as smart, confident and well-informed as any in the world.

That is why the last twenty years have been so good.

It is why countries once known best for wars and poverty are now famed as models, perhaps flawed but real, for developing nations everywhere.

And it is why I believe the future will be even better.

Thank you.